

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Members of the Butler County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise Butler County's basic financial statements.

We engaged Tichenor & Associates, LLP, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Butler County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Tichenor & Associates, LLP has completed the audit of the Butler County Fiscal Court for fiscal year ended June 30, 2007. We have issued an unqualified opinion on the governmental activities, business-type activities, and each major fund of Butler County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$3,656,600 as of June 30, 2007. Of the total net assets, the fiscal court had unrestricted net assets of \$1,591,209 in its governmental activities as of June 30, 2007. In its business-type activities, total cash and cash equivalents were \$9,943 with total net assets of \$9,943. The fiscal court had total capital financing obligations of \$626,038 as of June 30, 2007 with \$167,656 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Butler County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

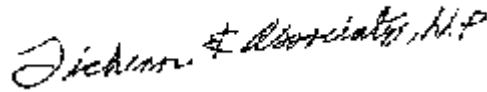
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2008 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

February 12, 2008

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

David Fields	County Judge/Executive
Roger McKinney	Magistrate
Stevie Givens	Magistrate
Allen Smith	Magistrate
Darrell Deweese	Magistrate
Keith Daugherty	Magistrate

Other Elected Officials:

Melissa Cardwell	Circuit Court Clerk
Richard Deye	County Attorney
Terry Fugate	Jailer
Shirley Givens	County Clerk
Joe Gaddie	County Sheriff
Angela Pendley	Property Valuation Administrator
Gerald Marty Jones II	Coroner

Appointed Personnel:

Susan Johnson	County Treasurer
Susan Johnson	Occupational Tax Administrator
Kim Phelps	Finance Officer
Kim Phelps	Personnel Officer
Larry Morris	Road Supervisor
Galon Neighbors and Marilyn Phelps	911 Administrator
Kelly Fugate	Jail Administrative Assistant/Bookkeeper

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BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,611,245	\$ 9,943	\$ 1,621,188
Assets Held for Resale	97,000		\$ 97,000
Total Current Assets	1,708,245	9,943	1,718,188
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	191,933		191,933
Buildings	555,319		555,319
Other Equipment	227,858		227,858
Vehicles and Equipment	72,619		72,619
Infrastructure Assets - Net of Depreciation	1,516,721		1,516,721
Total Noncurrent Assets	2,564,450		2,564,450
Total Assets	4,272,695	9,943	4,282,638
LIABILITIES			
Current Liabilities:			
Financing Obligations	167,656		167,656
Total Current Liabilities	167,656		167,656
Noncurrent Liabilities:			
Financing Obligations	458,382		458,382
Total Noncurrent Liabilities	458,382		458,382
Total Liabilities	626,038		626,038
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,035,412		2,035,412
Restricted For:			
Debt Service	20,036		20,036
Unrestricted	1,591,209	9,943	1,601,152
Total Net Assets	\$ 3,646,657	\$ 9,943	\$ 3,656,600

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,682,009	\$ 17,776	\$ 99,335	\$ 77,816
Protection to Persons and Property	1,263,273	714,915	63,877	
General Health and Sanitation	77,840			
Social Services	3,011			
Recreation and Culture	7,852			
Roads	803,076		234,226	1,526,634
Interest on Long-term Debt	31,316			
Total Governmental Activities	3,868,377	732,691	397,438	1,604,450
Business-type Activities:				
Jail Canteen	50,065	54,572		
Total Business-type Activities	50,065	54,572		
Total Primary Government	\$ 3,918,442	\$ 787,263	\$ 397,438	\$ 1,604,450

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Net Profit Taxes

Occup. Taxes

Other Taxes

Telephone 911 Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,487,082)	\$	\$ (1,487,082)
(484,481)		(484,481)
(77,840)		(77,840)
(3,011)		(3,011)
(7,852)		(7,852)
957,784		957,784
(31,316)		(31,316)
(1,133,798)		(1,133,798)
	4,507	4,507
	4,507	4,507
(1,133,798)	4,507	(1,129,291)
236,166		236,166
29,453		29,453
78,354		78,354
298,691		298,691
638,470		638,470
141,963		141,963
108,450		108,450
91,426		91,426
32,893		32,893
302,788		302,788
1,958,654		1,958,654
824,856	4,507	829,363
2,821,801	5,436	2,827,237
\$ 3,646,657	\$ 9,943	\$ 3,656,600

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGFA Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 779,587	\$ 800,732	\$ 2,947	\$ 7,943	\$ 20,036	\$ 1,611,245
Total Assets	<u>\$ 779,587</u>	<u>\$ 800,732</u>	<u>\$ 2,947</u>	<u>\$ 7,943</u>	<u>\$ 20,036</u>	<u>\$ 1,611,245</u>
FUND BALANCES						
Unreserved:						
General Fund	\$ 779,587	\$	\$		\$	\$ 779,587
Special Revenue Funds		800,732	2,947	7,943		811,622
Debt Service Fund					20,036	20,036
Total Fund Balances	<u>\$ 779,587</u>	<u>\$ 800,732</u>	<u>\$ 2,947</u>	<u>\$ 7,943</u>	<u>\$ 20,036</u>	<u>\$ 1,611,245</u>

Reconciliation to Statement of Net Assets:

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Total Fund Balances	\$ 1,611,245
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	4,939,265
Accumulated Depreciation	(2,374,815)
Financing Obligations Are Not Due And Payable In The Current Period And, Therefore, Are Not Reported In The Funds.	(626,038)
Assets Held for Resale	<u>97,000</u>
Net Assets Of Governmental Activities	<u>\$ 3,646,657</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,479,847		\$
In Lieu Tax Payments	51,701		
Excess Fees	91,426		
Intergovernmental	143,968	1,760,859	372,411
Charges for Services	344,660		54,543
Miscellaneous	197,485	69,520	19,796
Interest	18,850	12,436	
Total Revenues	<u>2,327,937</u>	<u>1,842,815</u>	<u>446,750</u>
EXPENDITURES			
General Government	531,298		
Protection to Persons and Property	683,016		467,308
General Health and Sanitation	77,840		
Social Services	3,011		
Recreation and Culture	7,852		
Roads		1,300,103	
Debt Service	19,280	25,672	
Capital Projects		3	
Administration	676,345	295,556	145,153
Total Expenditures	<u>1,998,642</u>	<u>1,621,334</u>	<u>612,461</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>329,295</u>	<u>221,481</u>	<u>(165,711)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds		97,000	
Transfers To Other Funds	(174,841)	(155,594)	
Transfers From Other Funds	155,594		166,000
Total Other Financing Sources (Uses)	<u>(19,247)</u>	<u>(58,594)</u>	<u>166,000</u>
Net Change in Fund Balances	310,048	162,887	289
Fund Balances - Beginning	469,539	637,845	2,658
Fund Balances - Ending	<u>\$ 779,587</u>	<u>\$ 800,732</u>	<u>\$ 2,947</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

LGEA Fund	Debt Service Fund	Total Governmental Funds
\$	\$	\$ 1,479,847
		51,701
		91,426
25,029	47,680	2,349,947
		399,203
1,415		288,216
306	1,301	32,893
<u>26,750</u>	<u>48,981</u>	<u>4,693,233</u>
		531,298
70,838		1,221,162
		77,840
		3,011
		7,852
		1,300,103
11,407	55,768	112,127
		3
20		1,117,074
<u>82,265</u>	<u>55,768</u>	<u>4,370,470</u>
<u>(55,515)</u>	<u>(6,787)</u>	<u>322,763</u>
		97,000
		(330,435)
	8,841	330,435
	<u>8,841</u>	<u>97,000</u>
(55,515)	2,054	419,763
63,458	17,982	1,191,482
<u>\$ 7,943</u>	<u>\$ 20,036</u>	<u>\$ 1,611,245</u>

The accompanying notes are an integral part of the financial statements.

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**BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ 419,763
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	515,550
Depreciation Expense	(191,268)
Assets Held For Resale	97,000
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.	
Lease And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources.	
Financing Obligation Proceeds	(97,000)
Financing Obligations Principal Amount	<u>80,811</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 824,856</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 9,943
Total Current Assets	<u>9,943</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	
Less Accumulated Depreciation	<u> </u>
Total Noncurrent Assets	<u> </u>
Total Assets	<u>9,943</u>
Net Assets	
Unrestricted	9,943
Total Net Assets	<u><u>\$ 9,943</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 54,474
Total Operating Revenues	<hr/> 54,474 <hr/>
Operating Expenses	
Cost of Sales	35,888
Educational and Recreational	748
Personnel Costs	5,946
Miscellaneous	7,483
Total Operating Expenses	<hr/> 50,065 <hr/>
Operating Income	<hr/> 4,409 <hr/>
Nonoperating Revenues	
Inmate Pay From State	98
Total Nonoperating Revenues	<hr/> 98 <hr/>
Change In Net Assets	4,507
Total Net Assets - Beginning	5,436
Total Net Assets - Ending	<hr/> \$ 9,943 <hr/>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 54,474
Cost of Sales	(35,888)
Educational and Recreational	(748)
Personnel Costs	(5,946)
Miscellaneous	<u>(7,483)</u>
Net Cash Provided By Operating Activities	<u>4,409</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	<u>98</u>
Net Cash Provided By Noncapital Financing Activities	<u>98</u>
Net Increase in Cash and Cash Equivalents	4,507
Cash and Cash Equivalents - July 1, 2006	<u>5,436</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 9,943</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 4,409</u>
Net Cash Provided By Operating Activities	<u><u>\$ 4,409</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. All other component units are discretely presented. Based upon the application of criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Butler County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Butler County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for the payment of long-term debt principal and interest.

Special Revenue Funds

The Road Fund, Jail Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, furniture and fixtures, machinery, equipment, vehicles, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 5,000	3-25
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institutions' failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 191,933	\$	\$	\$ 191,933
Total Capital Assets Not Being Depreciated	191,933			191,933
Capital Assets, Being Depreciated:				
Buildings	1,486,694			1,486,694
Other Equipment	770,426	15,000		785,426
Vehicles and Equipment	799,017	17,600		816,617
Infrastructure	1,175,645	482,950		1,658,595
Total Capital Assets Being Depreciated	4,231,782	515,550		4,747,332
Less Accumulated Depreciation For:				
Buildings	(896,284)	(35,091)		(931,375)
Other Equipment	(520,295)	(37,273)		(557,568)
Vehicles and Equipment	(691,442)	(52,556)		(743,998)
Infrastructure	(75,526)	(66,348)		(141,874)
Total Accumulated Depreciation	(2,183,547)	(191,268)		(2,374,815)
Total Capital Assets, Being Depreciated, Net	2,048,235	324,282		2,372,517
Governmental Activities Capital Assets, Net	\$ 2,240,168	\$ 324,282	\$ 0	\$ 2,564,450

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 46,534
Protection to Persons and Property	42,111
Roads, Including Depreciation of General Infrastructure Assets	102,623
Total Depreciation Expense - Governmental Activities	\$ 191,268

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Financing Obligations

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2007 was \$407,000. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 32,000	\$ 22,938
2009	34,000	21,025
2010	36,000	18,995
2011	37,000	16,873
2012	39,000	14,669
2013-2017	229,000	36,043
Totals	<u>\$ 407,000</u>	<u>\$ 130,543</u>

B. Fire Truck

On December 30, 1999, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$41,000 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2007 was \$12,005. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 4,543	\$ 294
2009	4,674	158
2010	2,788	28
Totals	<u>\$ 12,005</u>	<u>\$ 480</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Financing Obligations (Continued)

C. Fire Truck

On November 30, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$48,902 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2007 was \$19,279. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 5,325	\$ 646
2009	5,608	494
2010	5,906	335
2011	2,440	25
Totals	<u>\$ 19,279</u>	<u>\$ 1,500</u>

D. Tractor and Mower

On May 6, 2005, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a tractor and mower. The principal was \$54,768 at a rate of 3.33% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2007 was \$34,768. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 10,000	\$ 1,270
2009	10,000	862
2010	14,768	366
Totals	<u>\$ 34,768</u>	<u>\$ 2,498</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Financing Obligations (Continued)

E. Road Equipment

On October 11, 2005, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of road equipment. The principal was \$56,480 at a rate of 3.73% interest for a period of 5 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2007 was \$44,480. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 12,000	\$ 1,634
2009	12,000	1,179
2010	12,000	641
2011	8,480	50
Totals	<u>\$ 44,480</u>	<u>\$ 3,504</u>

F. Vehicle

On February 16, 2006, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a vehicle. The principal was \$20,043 at a rate of 4.25% interest for a period of 36 months, interest paid monthly and principal paid monthly. Principal outstanding as of June 30, 2007 was \$11,506. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2008	\$ 6,788	\$ 555
2009	4,718	226
Totals	<u>\$ 11,506</u>	<u>\$ 782</u>

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 609,849</u>		<u>\$ 80,811</u>	<u>\$ 529,038</u>	<u>\$ 70,656</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 609,849</u>	<u>\$ 0</u>	<u>\$ 80,811</u>	<u>\$ 529,038</u>	<u>\$ 70,656</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Short-term Debt

On June 13, 2007, the Butler County Fiscal Court entered into a short-term lease agreement with the Kentucky Association of Counties to borrow \$97,000 in order to finance the purchase of a Mac Truck. The agreement calls for monthly interest payments with an average interest rate of 4.898%. The principal is due on June 20, 2008.

Primary Government:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	\$	\$ 97,000	\$	\$ 97,000	\$ 97,000
Governmental Activities					
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 97,000</u>	<u>\$ 0</u>	<u>\$ 97,000</u>	<u>\$ 97,000</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

Butler County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2007, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustment

Beginning Net Assets of the Governmental Activities on the Statement of Activities has been reduced by \$500 due to prior period errors relating to depreciation and the disposal of assets.

Note 10. Subsequent Event

On September 11, 2007, the Butler County Emergency Medical Service, which had been operated by the Butler County Fiscal Court, became a Special Taxing District.

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,072,000	\$ 1,072,000	\$ 1,479,847	\$ 407,847
In Lieu Tax Payments	45,600	45,600	51,701	6,101
Excess Fees	57,235	87,235	91,426	4,191
Intergovernmental Revenue	114,320	128,500	143,968	15,468
Charges for Services	180,000	189,000	344,660	155,660
Miscellaneous	17,000	88,556	197,485	108,929
Interest	10,000	10,000	18,850	8,850
Total Revenues	<u>1,496,155</u>	<u>1,620,891</u>	<u>2,327,937</u>	<u>707,046</u>
EXPENDITURES				
General Government	580,155	584,055	531,298	52,757
Protection to Persons and Property	734,338	762,689	683,016	79,673
General Health and Sanitation	77,800	80,900	77,840	3,060
Social Services	3,900	3,011	3,011	
Recreation and Culture	5,000	7,852	7,852	
Debt Service	241,300	241,300	19,280	222,020
Administration	611,400	696,368	676,345	20,023
Total Expenditures	<u>2,253,893</u>	<u>2,376,175</u>	<u>1,998,642</u>	<u>377,533</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(757,738)</u>	<u>(755,284)</u>	<u>329,295</u>	<u>1,084,579</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(203,286)	(203,286)	(174,841)	28,445
Transfers From Other Funds	150,000	150,000	155,594	5,594
Borrowed Money	241,300	241,300		(241,300)
Total Other Financing Sources (Uses)	<u>188,014</u>	<u>188,014</u>	<u>(19,247)</u>	<u>(207,261)</u>
Net Changes in Fund Balance	(569,724)	(567,270)	310,048	877,318
Fund Balance - Beginning	<u>569,724</u>	<u>599,724</u>	<u>469,539</u>	<u>469,539</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 32,454</u>	<u>\$ 779,587</u>	<u>\$ 1,346,857</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,094,990	\$ 1,608,238	\$ 1,760,859	\$ 152,621
Miscellaneous		69,488	69,520	32
Interest	5,500	5,500	12,436	6,936
Total Revenues	1,100,490	1,683,226	1,842,815	159,589
EXPENDITURES				
Roads	817,155	1,309,731	1,203,103	106,628
Debt Service			25,672	(25,672)
Capital Projects	4,000	4,000	3	3,997
Administration	208,250	304,635	295,556	9,079
Total Expenditures	1,029,405	1,618,366	1,524,334	94,032
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	71,085	64,860	318,481	253,621
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(150,000)	(150,000)	(155,594)	(5,594)
Total Other Financing Sources (Uses)	(150,000)	(150,000)	(155,594)	(5,594)
Net Changes in Fund Balance	(78,915)	(85,140)	162,887	248,027
Fund Balance - Beginning	78,915	78,915	637,845	558,930
Fund Balance - Ending	\$ 0	\$ (6,225)	\$ 800,732	\$ 806,957

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 342,840	\$ 342,840	\$ 372,411	\$ 29,571
Charges for Services	52,700	52,700	54,543	1,843
Miscellaneous	8,000	13,000	19,796	6,796
Total Revenues	403,540	408,540	446,750	38,210
EXPENDITURES				
Protection to Persons and Property	454,286	468,420	467,308	1,112
Administration	152,540	148,406	145,153	3,253
Total Expenditures	606,826	616,826	612,461	4,365
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(203,286)	(208,286)	(165,711)	42,575
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	203,286	203,286	166,000	(37,286)
Total Other Financing Sources (Uses)	203,286	203,286	166,000	(37,286)
Net Changes in Fund Balance		(5,000)	289	5,289
Fund Balance - Beginning			2,658	2,658
Fund Balance - Ending	\$ 0	\$ (5,000)	\$ 2,947	\$ 7,947

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 20,000	\$ 20,000	\$ 25,029	\$ 5,029
Miscellaneous			1,415	1,415
Interest	949	949	306	(643)
Total Revenues	<u>20,949</u>	<u>20,949</u>	<u>26,750</u>	<u>5,801</u>
EXPENDITURES				
Protection to Persons and Property	60,000	82,980	70,838	12,142
Roads	32,000	32,000		32,000
Debt Service			11,407	(11,407)
Administration		20	20	
Total Expenditures	<u>92,000</u>	<u>115,000</u>	<u>82,265</u>	<u>32,735</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(71,051)</u>	<u>(94,051)</u>	<u>(55,515)</u>	<u>38,536</u>
Net Changes in Fund Balance	(71,051)	(94,051)	(55,515)	38,536
Fund Balance - Beginning	<u>71,051</u>	<u>72,000</u>	<u>63,458</u>	<u>(8,542)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (22,051)</u>	<u>\$ 7,943</u>	<u>\$ 29,994</u>

BUTLER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the Road Fund in roads by \$97,000 due to purchase of assets for resale by financing obligation. The Road Fund in Other financing sources (uses) differs by \$97,000 due to proceeds of a financing obligation.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 12, 2008. Butler County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butler County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Butler County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

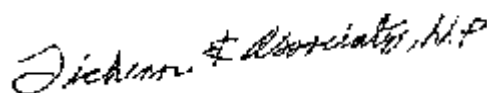
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Butler County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates LLP

February 12, 2008

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE

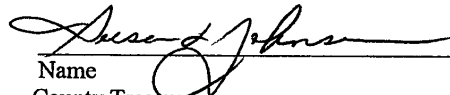
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

